



A U D I T O R - G E N E R A L

His Worship, The Mayor
Mandeni Municipality
P O Box 144
Mandeni
4490

Reference: 21240REG05/06
Enquiries: D. Bosch
Date: 30 March 2007

Honourable Mayor

**REPORTS OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND
RESULTS OF PERFORMANCE MEASUREMENT OF ENDONDAKUSUKA
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006**

The above-mentioned reports of the Auditor-General are herewith submitted in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004), read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).

A copy of my evenly numbered letter to the Municipal Manager is attached for your information and attention.

Kindly acknowledge receipt of this letter.

Yours faithfully

D Bosch for Auditor-General

Pietermaritzburg



A U D I T O R - G E N E R A L

The Municipal Manager
Mandeni Municipality
P O Box 144
Mandeni
4490

Reference:21240REG05/06
Enquiries: D. Bosch
Date: 30 March 2007

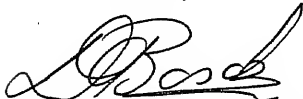
Dear Sir

REPORTS OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND RESULTS OF PERFORMANCE MEASUREMENT OF ENDONDAKUSUKA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

1. The above-mentioned reports of the Auditor-General are submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA)
2. In terms of sections 121(3) and 127(2) of the MFMA it is required of high and medium category municipalities to include both the audit reports in the municipality's annual report for tabling within seven months after the end of the financial year.
3. Until tabled, or published by the Auditor-General, these reports are **not public documents** and should therefore be treated as **confidential**.
4. Where the attached audit reports are to be published as part of the municipality's annual report in terms of the MFMA, or voluntary in the case of a low capacity municipality, you are requested to please do the following:
 - Submit the final printer's proof of the annual report (which includes the audit reports) to the relevant audit manager of the Auditor-General for verification of the audit-related references before it is printed or copied. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - Print the logo of the Auditor-General on the last page of the audit reports beneath the signatory details. The official logo will be made available to you electronically if needed.

5. Please notify the Provincial Auditor-General (Business Executive) well in advance of the date on which the audit reports, or the annual report containing these audit reports, will be tabled at the municipality.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.
7. Kindly acknowledge receipt of this letter.

Yours faithfully

A handwritten signature in black ink, appearing to read 'D Bosch', with a stylized, cursive script.

D Bosch *for* Auditor-General

Pietermaritzburg

**REPORT OF THE AUDITOR-GENERAL ON THE ANNUAL FINANCIAL
STATEMENTS TO THE COUNCIL OF THE ENDONDAKUSUKA
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006**

1. AUDIT ASSIGNMENT

The annual financial statements as set out on pages 14 to 31, for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004), and section 126(3) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

Except as discussed in paragraph 4.1 the audit was conducted in accordance with the International Standards on Auditing read with *General Notice 1512 of 2006*, issued in *Government Gazette no. 29326 of 27 October 2006*. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The municipality is required to prepare the financial statements on the entity specific basis of accounting as described in note 1 of the accounting policies to the financial statements.

4. QUALIFICATION

4.1 Limitation of scope

To ensure good internal control and financial management, management of the municipality is required to obtain and safeguard supporting documentation. The failure to furnish adequate supporting documents limited the scope of the audit and alternative audit procedures were not feasible. The following are examples:

- Manual receipts numbers 58401 to 58600 could not be provided for audit.

- Evidence to substantiate an amount of R100 561 included in miscellaneous debtors amounting to R689 192 as disclosed in note 9 of the financial statements could not be provided for audit.

4.2 Cash flow statement

An unsubstantiated difference of R854 715 existed between the cash retained from operating activities (net cash flow) and the cash effects of financing activities (net cash generated) as disclosed in the cash flow statement.

5. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraph, the financial statements have been prepared, in all material respects, in accordance with the basis of accounting described in note 1 of the accounting policies to the financial statements and in the manner required by the MFMA.

6. EMPHASIS OF MATTER

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

6.1 Provision for doubtful debts

Management did not categorise and analyse the payment profiles of consumer debtors adequately in the calculation of the provision for doubtful debts. In addition, proper systems to optimise debt collection were not in place. The provision at year-end amounting to R20, 7 million is neither sufficient nor reasonable as indicated below:

- From a sample of 95 high value debtors selected for testing, only 8 per cent was agreed to receipts subsequent to year end or had a signed acknowledgement of debt.
- Approximately 95 per cent of the consumer debtors amounting to R43, 1 million were outstanding for longer than 90 days.
- The consumer debtors increased by 28 per cent from the prior year and the debtor's collection period increased from 365 days in 2005 to 383 days in 2006.

6.2 Non-compliance with laws and regulations

Management has an obligation to put in place controls to ensure compliance with laws and regulations. Owing mainly to the lack of a proper system to monitor compliance, the municipality was in contravention with the following compliance matters:

6.2.1 Rates appeals

Rates appeals lodged during the financial year have not been referred to the Appeals Board as required by section 161(1) of the Local Authorities Ordinance, No. 25 of 1974.

6.2.2 Mandatory leave

Seven workers did not take their mandatory 16 days leave as required by paragraph 7.2.1 of the South African Local Bargaining Council agreement dated December 2003. In addition, the above leave was still recorded as accrued and was not forfeited, as required by the above agreement.

6.2.3 Procurement

Management's inability to monitor and control the adherence to the procurement policy contributed to the following contraventions:

- In six instances amounting to R173 389 the required three written quotations were not obtained from suppliers. In addition, a payment of R79 500 was made to a service provider without following the procurement process.
- Two payments amounting to R321 495 were made without any evidence that the required competitive bidding process had been followed.
- Two payments amounting to R683 709 were made without evidence that the required formal bidding process had been followed.

The above is considered as irregular expenditure and had not been adequately dealt with as required by sections 32(2) and (4) of the MFMA.

6.3 Going concern

Management's inability to collect debts contributed to the municipality being technically insolvent at 30 June 2006. The statutory and trust funds (excluding debtors, internal loans and the cost of land) as well as the provision for leave pay amounting to R9,2 million in total was not supported by cash and investments amounting to only R1, 4 million (excluding the investment of R1,4 million relating to a promissory note issued to secure a long term loan). The shortfall of approximately R7,8 million is viewed with concern and is shown as temporary borrowings from the statutory funds as disclosed in notes 28 to 30 of the financial statements. In addition, the shortage of funds contributed to Council only spending R1,5 million (21 per cent) of the approved capital budget of R7,1 million.

6.4 Financial management

In terms of section 62 of the MFMA the accounting officer is responsible to manage the financial administration of the municipality. Good financial management requires management to prepare reconciliations and to ensure that

regular independent reviews and monitoring takes place. During the year the following shortcomings existed:

- There is no evidence that the electricity meter reading activity reports were reviewed.
- Some reconciling items in the bank reconciliation dated as far back as 2002.
- Receipts amounting to R35 624 issued in July 2006 were processed in June 2006.
- Human resources records were inadequate as certain leave forms were not on file and at least seven employment contracts were not on file.
- Control to prevent staff from making unauthorised amendments to the valuation roll on the system is inadequate as no review thereof is done by senior management.
- The number of refuse bins emptied for businesses and schools as per the service provider's records for nine months of the year was more than the actual number of bins used to account for as revenue.
- The refuse removal services incurred a deficit of R1,96 million for the year under review.
- Land sale debtors owing R268 933 did not pay any instalments during the year under review.

7. Late finalisation of the audit report

The finalisation of the audit was delayed as a result of, *inter alia*, additional work performed to verify the material audit adjustments made by management to the financial statements and limited resources available to complete the audit.

8. APPRECIATION

The assistance rendered by the staff of the eNdongakusuka Municipality during the audit is sincerely appreciated.



D Bosch for Auditor-General

Pietermaritzburg

30 March 2007



A U D I T O R - G E N E R A L

REPORT OF THE AUDITOR-GENERAL ON FACTUAL FINDINGS ON PERFORMANCE MEASUREMENT TO THE COUNCIL OF ENDONDAKUSUKA MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

1. ASSIGNMENT

The compilation, presentation and publishing of performance measurements and the implementation, management and internal control of supporting systems are the responsibility of the accounting officer.

As required by section 45(b) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) my responsibility is to provide an assessment of the controls implemented by the accounting officer to develop and manage the municipality's performance management system. My role is not to assess or comment on the municipality's actual performance.

2. NATURE AND SCOPE

I have performed the procedures agreed upon and described below regarding the performance management system of Endondakusuka Municipality. The assignment was undertaken in accordance with the International Standard on Related Services (ISRS 4400) applicable to agreed-upon procedure engagements.

The procedures were performed solely to evaluate the controls implemented and managed by the accounting officer regarding the municipality's performance management system against the criteria set out in:

- chapter 6 of the MSA
- the Local Government: Municipal Planning and Performance Management Regulations, 2001 (No. R. 796) (regulations)

The procedures performed during my assignment were based on the high-level overview checklist completed by management and included a review of the following aspects:

1. Development of an integrated development plan
2. Development and implementation of a performance management system
3. Development and improvement of key performance indicators
4. Setting of targets for key performance indicators
5. Actual service delivery process
6. Internal monitoring of performance measurements
7. Internal control of the performance management system
8. Performance measurement and reporting
9. Revision of strategies and objectives

3. FACTUAL FINDINGS

I report my findings below with reference to the MSA and the regulations:

3.1. Development of an Integrated Development Plan (IDP)

The IDP has been reviewed in terms of section 34 of the MS, adopted implemented and contained the characteristics required in terms of regulation 2.

3.2. Development and implementation of a Performance Management System (PMS)

The municipality developed, adopted and implemented a formally documented PMS in compliance with sections 38 and 39 of the MSA. However, at the time of the audit the PMS has not been applied for all levels of staff and regular meetings were not held with community forums [regulation 15(2) and section 42 of the MSA].

3.3. Development and improvement of Key Performance Indicators (KPIs)

The municipality did develop, adopted and implemented KPIs. However, formal KPIs were not set for lower levels of staff. In addition, formal KPIs were not set for service providers [regulation 9(2)(b)].

3.4. Setting of targets for KPIs

Owing th KPIs not being set in respect of lower levels of staff and service providers, performance targets were also not set [regulation 12(1)].

3.5. Actual service delivery process

Due to the PMS not being cascaded to all levels of staff and service providers, actual monitoring of service delivery was not consistent throughout the municipality.

3.6. Internal monitoring of performance measurement

Due to the PMS not being cascaded to all levels of staff, the monitoring process had been limited to those employees for whom KPIs had been developed and implemented (regulation 13).

3.7. Internal control of the PMS

The municipality has an internal audit function as part of its internal control. However, this function only started to operate from May 2006 which resulted in effective internal audits not being performed for the year under review (regulation 14).

3.8. Performance measurement and reporting

A formal process of regular reporting to, *inter alia*, the council, other political structures and the public on performance management as required by section 41(1)(e) of the MSA was not in place during the year under review.

3.9. Revision of strategies and objectives

The municipality had not formally reviewed the strategies and objectives during the year under review [sections 41(1)(c) and (d) of the MSA and regulations 7(1) and 13(1)].

4. STATEMENT

Because the above procedures constitute neither an audit nor a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, I do not express any assurance on the results of the performance measurements as at 30 June 2006.

Had I performed additional procedures, or an audit or review of the performance measurement in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to my attention that would have been reported to you.

This report relates only to the purpose set forth in the first paragraph of this report and does not extend to the financial statements of the Endondakusuka Municipality, taken as a whole.

5. APPRECIATION

The assistance rendered by the staff of the Endondakusuka Municipality during the assignment is sincerely appreciated.



D Bosch for Auditor-General

Pietermaritzburg

30 March 2007



A U D I T O R - G E N E R A L